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CHIEF EXECUTIVE OFFICE
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Chief Executive Officer

"To Enrich Lives Through Effective And Caring Service"

November 18, 2014

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

ADOPT CONCEPT FOR THE DEVELOPMENT OF THE VERMONT CORRIDOR
SECOND DISTRICT
(3 VOTES)

SUBJECT

Development of a comprehensive development concept is intended to provide the Board with information on ways to develop, design, and construct a proposed new building at the Vermont Avenue site to house departmental administrative staff from the Department of Mental Health and to detail various possible options that address the programmatic, physical, and logistical challenges currently facing the Vermont Corridor.

IT IS RECOMMENDED THAT THE BOARD:

1. Find that the proposed Project recommendations are not a project pursuant to the California Environmental Quality Act, for the reasons stated in this letter and the record of the Project.

2. Authorize the Chief Executive Officer to complete development of the proposed Vermont Corridor Development Concept in a manner that integrates the Community Development Commission's "Alhambra Model" with County financing in order to alleviate blight as described herein.

3. Authorize the Chief Executive Officer to finalize a Request for Proposals for the proposed replacement of the Department of Mental Health headquarters and proposed future development of County-owned properties located at 550, 510, and 433 South Vermont Avenue and 3175 West Sixth Street in the City of Los Angeles upon completion of the new Department of Mental Health headquarters building.

4. Direct the Chief Executive Office to return to the Board and obtain approval to issue the final Request for Proposal by February 10, 2015.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The recommended actions will authorize the study of the possible incorporation of a hybrid development model that is intended to alleviate blight in the Vermont Corridor through replacement of the Department of Mental Health (DMH) headquarters (HQ) and the study of possible private development of County-owned parcels that are currently occupied by the Departments of Mental Health (DMH), Parks and Recreation (DPR), and Community and Senior Services (DCSS).

Background

On July 1, 2014, the Board directed the Chief Executive Office (CEO), with the assistance and input from the Community Development Commission (CDC), to report back with a proposed plan and timeline for the:

• development, design, and construction of a new building at the Vermont Corridor;

• acquisition and completion of tenant improvements at an existing building to house departmental staff currently located at the Vermont Corridor; and

• issuance of a Request for Proposals (RFP) to privately develop and/or sell the remaining County property at the Vermont Corridor.

The CEO was also directed to validate space requirements of various administrative offices in the Vermont Corridor for the following Departments: DMH, DPR, and DCSS. These County-owned facilities show a high level of physical deterioration. The infrastructure has outlived its useful life and the working conditions for staff operating from these facilities necessitates immediate resolution.

Further, the Board authorized the CEO and Director of Public Works to determine an appropriate size for a new building on the Vermont site and an existing building at an offsite location for future acquisition based on the preliminary departmental space programs. The CEO worked with the before-mentioned departments to confirm their space needs and develop a space plan for each department.

Proposed Vermont Corridor Concept

The proposed development of a new DMH HQ is one component of a proposed comprehensive Vermont Corridor Concept that is intended to eliminate blight along the Vermont Corridor. Pursuant to the Board’s direction, the CEO, CDC, County Counsel, and Treasurer and Tax Collector, have studied the feasibility of integrating a private development model, such as the “Alhambra Model” utilized by CDC to construct its proposed new headquarters, with County financing capabilities.

Alhambra Development and County Financing Models

The Alhambra Model is unique to the County process for structuring capital projects in that it utilizes only a single procurement for the entirety of the project. This provides two project benefits that are absent from the routine procurement process; fast track of project delivery and enhanced protections to County. These components significantly accelerate project delivery times while assuring project savings.

The fast-track approach entails on the concurrent implementation of feasibility and predevelopment activities and offers greater contracting flexibility. Current County contracting practices are governed by State Public Contract Code which mandates a competitive selection of design, contractor, and design-build firms. Under the Alhambra Model, the developer is not subject to the provisions of the Public Contract Code, and as such, is able to reduce the development timeframe by several months. The Alhambra Model also restricts the opportunities to add or change scope, which further reduces time and cost.

The Alhambra Model would also increase the County's protection from cost overruns since it is not contractually obligated to the proposed Project during the development phase. Although, if a Project is approved, the County would still be responsible for unforeseen site conditions on a County-owned site.

The County's proposed financing model, however, achieves lower overall financing costs than the Alhambra Model by financing construction with tax-exempt commercial paper with short-term rates (1 to 180 days) rather than long-term bonds with 30 year rates. The commercial paper is ultimately redeemed by the issuance of long-term bonds that are issued upon the completion of construction. Such an approach achieves lower costs by eliminating construction risk on the bondholder and the need to capitalize interest payments during construction. Both factors contribute to lower bond yields.

Proposed Vermont Corridor Concept

The distinguishing feature of the proposed Vermont Corridor Concept from CDC's headquarters development is County ownership of the parcels to be developed. Integration of the Alhambra Model into the proposed Vermont Corridor Concept would require leasing the County-owned parcel(s) to a development team comprised of a qualified non-profit organization, developer, financial institution, architect, and building contractor.

The parcels to be leased would include the current sites of the administrative headquarters for the following departments: DMH, DPR, and DCSS. The proposed development concept which would undergo environmental review under the California Environmental Quality Act (CEQA) prior to recommendation to the Board, entails the following proposed activities:

• relocation of the DPR and DCSS headquarters to an offsite location;

• construction of a new building to house the DMH HQ on available land at 526 South Vermont, which is immediately adjacent to north of the current headquarters building; and

• private development of the vacated parcels, including the current DMH HQ site, which will be vacated upon completion of the new building.

Construction of a proposed new headquarters building for DMH at 526 South Vermont Avenue would be accomplished through a Guaranteed Maximum Price contract, as the first phase of construction (Phase I) under a proposed lease agreement with a development team. Development of the vacated parcels would be pursued as a second construction phase under the lease agreement (Phase II). The purposes of the proposed Phase II development would be subject to the County's approval and would not proceed until proposed Phase I construction has been completed. If the proposed Phase II construction does not commence within five years after Phase I completion, the development rights to the vacated parcels would revert to the County.

Proposed Lease Structure

The proposed lease agreement would be structured pursuant to Government Code Section 25549.1 et seq. Under this statute, the Board may lease to any private person, firm, or corporation any real property which belongs to the County, if the instrument by which such property is let requires the lessee therein to construct on the demised premises, or provide for construction thereon, of a building or buildings, for the joint use of the County and the private party during the term of the lease or agreement. Government Code Section 25549.1 et seq, however does require the development team to comply with all applicable laws, including public contracting requirements.

The ground lease term may not exceed 66 years. The site occupied by DMH upon completion of the Phase I improvements would be leased back to the County over a term matching that of the underlying bonds. Upon the final maturity of the underlying bonds, the leaseback would terminate and title to the new headquarters building shall vest in the County. The privately developed parcels shall continue to be subject to the lease for the remaining lease term.

Before entering into the proposed lease or agreement, the Board would, in a regular open meeting, adopt a resolution declaring its intention to consider the proposals. The resolution would describe the proposed site on which the building to be jointly occupied would be constructed in such a manner as to identify the site, would specify the intended use of that portion of the building which is to be occupied by the County and would fix a time not less than 60 days thereafter for a public meeting of the Board to be held at its regular place of meeting, at which meeting the Board would receive all places or proposals submitted.

Notice of adoption of the resolution and the time and place of holding the meeting would be given by publishing the resolution at least once a week for three weeks in a newspaper of general circulation published in the County. At the time and place fixed in the resolution for the meeting of the Board, the Board would meet and receive all plans and proposals submitted for the joint occupancy of the proposed building to be constructed on the site under consideration.

Financing Strategy

The proposed financing structure is intended to access the favorable interest rates available to the County in the tax-exempt markets while minimizing cost premiums associated with potential unforeseen conditions at sites that are not owned or controlled by proposing development teams. Normally, developers own or acquire a site for a proposed development and retain the liability of any unforeseen site conditions. Since the County owns the parcels proposed for development, it would retain any liabilities associated with them. Given the uncertainty of existing, yet unforeseen conditions at the County-owned sites, it is anticipated that proposing development teams would require a premium or contingency factor to provide coverage against construction delays and/or increased costs associated with such risks.

The County’s exposure to such premiums, as well as the potential for continuing liability for its site conditions, would be minimized if the County were to provide construction financing until the building’s foundations were poured. This milestone would encompass the vast majority of costs that could be attributed to the site’s conditions. As such, it would largely eliminate uncertainties and premiums associated with the site and what is anticipated to be the most difficult phase of construction.

Based on the congested urban setting and the site's immediate proximity to Metro's Red Line beneath Vermont Avenue, it is anticipated that the proposed milestone would represent approximately 30% of the Project budget. Under the proposed financing strategy, the County would fund construction costs to this milestone through the issuance of tax-exempt commercial paper. The low short-term rates accessed by tax-exempt commercial paper will minimize financing costs for this phase of construction and lower the County's debt service payments under the leaseback agreement. Any costs incurred to the completion of the building's foundations would be confirmed as legitimate and eligible for funding by an Owner's Representative retained by the County prior to reimbursement by commercial paper proceeds.

Upon reaching this milestone, the development team would assume full responsibility for completing and financing the remaining 70% of the proposed construction. The development team would issue long-term bonds under federal Revenue Code 63-20 to redeem the County-issued commercial paper and to fund completion of the proposed building.

The provision of County funding for 30% of construction would also reduce the amount of capitalized interest that is funded by the development team's long-term bonds, which will further reduce debt service costs that must be repaid by the County under the leaseback agreement. Terms and conditions of the proposed financing strategy would be incorporated into the lease/leaseback agreements and bond purchase documents.

Development Team RFP

The development team would be selected through a formal RFP issued and overseen by the CEO, with the assistance of the Department of Public Works (Public Works), County Counsel, CDC, DMH, and Treasurer and Tax Collector. The RFP will be evaluated on the following criteria:

• Qualifications of each member of the development team and the quality of their experience with public/private development projects;

• Documented experience of the development team to complete and finance public/private projects of a size and complexity of the proposed project and at interest rates that are commensurate with tax-exempt rates available to the public agency;

Including construction bonding capacity, insurance levels, and bond underwriting capacities and associated reserve requirements.

• Documented experience and success in attaining Local Worker Hiring objectives of a public agency;

• Documented experience and success in completing public/private developments within contracted budgets and schedules;

• Approach to developing space programs that are acceptable to a public agency;

• Type of development proposed for the parcels to be vacated by the County (e.g. residential, commercial/retail, office, mixed use) and how the proposed development would complement and benefit the surrounding community; and

• Proposed timetable, cost, and financing plan for the proposed design and construction of a new headquarters for DMH (including a breakdown of costs anticipated through the pouring of foundations and completion of the building) and development of the vacated parcels.

Additional criteria could be included in the RFP. Terms of the proposed lease to develop the vacated parcels would be subject to negotiation with the recommended development team. Based upon our initial review, the following agreements and documents would require negotiation and/or approval for the Board to complete the proposed development transaction:

- Environmental Impact Report (EIR);
- Predevelopment agreement;
- Development Agreement;
- Architectural Agreement;
- Lease/Leaseback Agreement or Facilities Lease Agreement;
- Bond Purchase and Sale Agreement;
- General Construction Contract; and
- Management Agreement to operate the building.

Approval of the recommended actions would authorize the CEO to finalize the RFP. The CEO will return to the Board to seek approval of the final RFP and its issuance by February 10, 2015. A proposed preliminary timetable for submittal and evaluation of the RFP, development of an EIR under CEQA, and preparation of the required development documents is provided below.

Development Timetable

- January 15, 2015: Circulate draft RFP
- February 10, 2015: Board of Supervisors approval of RFP and its issuance
- April 30, 2015: Deadline to submit proposals
- June 30, 2015: Evaluation proposals completed
- June 30, 2015: EIR preparation commences
- June 30, 2015: Cost and fee negotiations commence
- January 30, 2016: Draft EIR released for public comment
- June 30, 2016: Final EIR submitted to Board of Supervisors for consideration
- June 30, 2016: Lease/Leaseback recommended for award

The CEO will report, via memorandum, to the Board on the results and/or findings of each of these activities as the milestones are reached.

Space Requirements Validation

DMH hopes to consolidate the core administrative functions in the proposed building, including 1,094 budgeted positions from their existing headquarters at 550 S. Vermont, 445 budgeted positions from their leased space at 695 S. Vermont, 217 budgeted positions from their leased space at 600 S. Commonwealth, 57 budgeted positions from their Community Resource Management (CRM) Unit at 1925 Daly Street, 169 budgeted positions from the Public Guardian (PG) located in the Hall of Records at 320 W. Temple Street and 40 positions to allow for growth. Based upon County space standards, it is estimated that the proposed building would require approximately 400,000 square feet to accommodate the proposed 2,022 budgeted positions.

In its July 1, 2014 report, CDC estimated that the new DMH HQ would need to be 300,000 square feet. Space in the DMH HQ for the CRM and Public Guardian units, however, had yet to be considered by DMH at the time of that report. Subsequently, the addition of these two units increased the proposed space requirement to the current estimate of 400,000 square feet.

The CRM unit is currently housed at Daly Street and is primarily an administrative unit that manages contracts for urgent care centers, the Assembly Bill 109 population, and mental health State hospital beds. DMH has been working for approximately 18 months to relocate the CRM unit from Daly Street due to safety issues. Although repairs have been done to the facility, it has not been able to pass the Fire Marshall clearance for Medi-Cal certification. In the interim, CRM will be relocating into 550 S. Vermont and DMH Human Resources will be relocating from 550 S. Vermont to the Little Tokyo Lofts. DMH's intent is to leave the Little Tokyo Lofts when the lease expires, or the proposed new DMH HQ is completed, whichever occurs first. Thus space is included in the proposed new building for DMH Human Resources. As DMH has begun programming CRM into 550 Vermont they realized that their work requires significant interaction with the other administrative units assigned to their headquarters. DMH has determined that it makes operational sense to continue to house CRM in their administrative headquarters. If the CRM is not included in the proposed DMH HQ, space elsewhere would need to be identified.

PG occupies space at the Hall of Records (HOR) that is not adequate for the program requirements. The staff is split between two floors, sharing space with the Treasurer and Tax Collector staff on one floor and occupying “stack” space that was designed with lower ceilings to provide for file storage. This is creating a morale issue, especially for those staff assigned to the stack space. Because the Probate portion of Public Guardian is funded with Net County Cost, and revenue opportunities for the Lanterman Petris Short (LPS) side are limited, DMH is unable to fund lease space to meet the operational requirements of the PG program. Additionally, the DMH Court will be relocating to the Hollywood Courthouse, thus including the PG staff in the proposed administrative headquarters would place them in better proximity to the court.

The space requirements of the DPR and DCSS were also validated. It was determined that DPR would require approximately 62,000 square feet to vacate the properties at 510 S. Vermont, and 433 S. Vermont and also provide space for the department's contract administration staff and the Sheriff's Parks Bureau. The proposed space would accommodate 244 administrative staff.

Finally, DCSS would require approximately 68,000 square feet to accommodate 301 staff and vacate County-owned space at 510 S. Vermont and 3175 W. 6th Street and leased space at 3333 Wilshire Blvd.

Implementation of Strategic Plan Goals

The Countywide Strategic Plan Goal of Operational Effectiveness/Fiscal Sustainability (Goal 1) directs that we maximize the effectiveness of processes, structure, operations, and strong fiscal management to support timely delivery of customer-oriented and efficient public services. This includes strengthening the County's capacity to sustain essential services through proactive and prudent fiscal policies and stewardship while investing in the future by studying, prioritizing, and pursuing the highest-need capital projects. In this case, the County is supporting this goal by planning to replace a County facility that has exceeded its useful life and can no longer be supported or maintained. The new replacement facility will enhance operational efficiency in or near the community it services.

FISCAL IMPACT/FINANCING

The cost of the proposed new DMH HQ is preliminarily estimated at $256.0 million, which is comprised of approximately $75.0 million for the earthwork and below grade activities through the pouring of foundations, and approximately $181.0 million for the office shell and core, tenant improvements, and finished site. These costs will be refined upon completion of the facility's conceptual programming and preliminary design elements.

The price to develop the vacated parcels will be determined based upon negotiations with development team that is determined will provide the greatest value to the County based on the evaluation of submitted proposals.

The CEO, with the assistance of CDC, Public Works, and Treasurer and Tax Collector shall provide a full analysis of the fiscal impacts associated with the replacement of the DMH HQ and development of the vacated parcels following evaluation of the proposals.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

If approved in future actions by the Board, the proposed DMH HQ will include $1.0 million to be allocated to the Civic Art Special Fund per the Board's Civic Art Policy adopted on December 7, 2004, and amended on December 15, 2009. The Civic Art fees would be transferred to the Civic Art Special Fund upon the Board's approval of the total Project budget after completion of the Project's scoping documents.

ENVIRONMENTAL DOCUMENTATION

The recommended actions are not a project under CEQA because they are excluded from the definition of a project by Section 15378(b) of the State CEQA Guidelines. The proposed actions involve an administrative activity of government, which will not result in direct or indirect physical changes to the environment. Additionally, the proposed actions would create a conceptual government funding mechanism that does not involve any commitment to a specific project, which may result in a potentially significant physical impact on the environment.

The proposed actions would authorize a government funding mechanism that does not involve commitment to a specific project which may result in a potentially significant impact on the environment. No activity which would constitute a project under CEQA would be commenced unless the Board takes prior further action to consider and act upon the EIR to be completed under CEQA and submitted for the Board's consideration.

Any future recommendations on proposed development at the site remain subject to the Board's sole discretion to disapprove or modify the proposed Project and to consider feasible project mitigation and alternatives. Nothing precludes the County from denying any future development project proposed at the site or from weighing the benefits of the proposed Project against any unavoidable environmental risks when determining in the future whether to approve a project at the site. We will return to the Board for consideration of appropriate environmental findings and to recommend certification of an EIR if and when approval of activity, which constitutes a project under CEQA and/or other applicable environmental laws is recommended.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

The recommended actions will increase the efficiency of the DMH.

CONCLUSION

Please return one adopted copy of this Board letter to the Chief Executive Office, Facilities and Asset Management Division and Chief Executive Office, Real Estate Division.

Respectfully submitted,

WILLIAM T FUJIOKA
Chief Executive Officer

WTF:SHK:DJT
TJ:SVG:rp

c: Executive Office, Board of Supervisors
County Counsel
Arts Commission
Auditor-Controller
Community Development Commission
Public Works
Treasurer and Tax Collector